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31 January 1985

JAPAN REPORT

CONTENTS

POLITICAL AND SOCIOLOGICAL

Naha Citizens Demand Return of U.S. Base Land (KYODO, 14 Jan 85)	1
Japan To Lift Sanctions Against DPRK 1 Jan 85 (KYODO, 30 Dec 84)	2

MILITARY

Crisis Management by Self Defense Forces Analyzed (SHAKAI SHIMPO, 31 Aug 84)	3
---	---

ECONOMIC

Economic Outlook for Coming Decade Examined (JAPANESE ECONOMIC OUTLOOK, 1983-93, 6 Aug 84)	6
Current Account Surplus Tops 30 Billion Dollars (KYODO, 27 Dec 84)	12
Defense Spending To Increase 6.9 Percent (KYODO, 28 Dec 84)	14
Defense Agency Wins More Buildup Funds (KYODO, 28 Dec 84)	16
Japan To Increase ODA 10 Percent in Fiscal 1985 (KYODO, 28 Dec 84)	18
Interest Rates, Postal Savings Liberalization Discussed (Ryozo Okuda Interview; JIHYO, Oct 84)	19
Recommendations to Diet for NTT Corp Divestiture (NIHON DENSHIN DENWA KABUSHIKI KAISHA HOAN KANKEI SHIRYO, Apr 1984)	25

POLITICAL AND SOCIOLOGICAL

NAHA CITIZENS DEMAND RETURN OF U.S. BASE LAND

OW141121 Tokyo KYODO in English 0928 GMT 14 Jan 85

[Text] Naha, 14 January, KYODO--A group of 100 citizens Monday demanded return of their land currently on lease for U.S. military bases on this subtropical island.

The 5-year lease, enforced under Japanese legislation concerning U.S. military land in Japan, is due to expire in 1987.

The demand was made in a petition filed with the local bureau of the defense facilities administration agency, a division of the defense agency.

The Japanese land owners said in the petition that enforced use of their land for military purposes violates the Japanese postwar peace constitution banning the possession of armed forces.

Okinawa represents only 0.6 percent of Japan's total territory, but almost three quarters of U.S. military facilities in Japan in terms of space are concentrated in the southern island prefecture, according to the petition.

It said the "abnormal" situation is a source of noise pollution and American-related crimes.

The prefecture, which had been occupied by the United States since the end of World War II, was returned to Japan in 1972.

CSO: 4100/137

JAPAN TO LIFT SANCTIONS AGAINST DPRK 1 JAN 85

0W300545 Tokyo KYODO in English 0537 GMT 30 Dec 84

[Text] Tokyo, 30 December, KYODO--Japan is due to lift its sanctions against North Korea Tuesday to end the 14-month-old retaliatory measures imposed to protest the country's terrorist bombing attack on South Korean Government officials in Rangoon, Burma, in October last year.

The Japanese Government announced in October that it will end the sanctions in January.

The decision, which followed the historic visit to Tokyo by South Korean President Chon Tu-hwan in September, reportedly angered some officials of the Seoul government who had been warning Japan against moving close to North Korea.

Japanese Foreign Minister Shintaro Abe and other senior government officials have assured South Korea that lifting the sanctions does not mean a change in Japan's policy toward the Pyongyang government.

Japan does not recognize North Korea diplomatically.

The bloody incident in Rangoon, which left four South Korean cabinet members dead, prompted the Tokyo government to ban visits by North Korean officials to Japan as well as contact between Japanese and North Korean diplomats in third countries in the four-point sanctions.

Although North Korea still denies any involvement in the terrorist action, the communist country has made signs of improving its relations with Japan as well as with South Korea, which resulted in the first ever economic meeting between Seoul and Pyongyang and resumption of bilateral Red Cross talks.

North Korea also agreed in October to renew a private fishery accord with Japan, which expired more than 2 years before.

And now the Tokyo government reportedly plans to accept a North Korean delegation headed by a National Assembly member.

CSO: 4100/137

CRISIS MANAGEMENT BY SELF DEFENSE FORCES ANALYZED

Tokyo SHAKAI SHIMPO in Japanese 31 Aug 84 p 3

[Text] The Self Defense Forces' "Crisis Management": What It Will Protect Is the National Order, the People Are Something To Be Mobilized; Aiming At Military Synthesis in the Name of Disaster Prevention

Analysis

It was around 1959 that the Ground Self Defense Force carried out research on the Great Kanto Earthquake [of 1923]. In March 1960 Section 3 of the Ground Staff Office compiled a document entitled "Lessons Learned From the Great Kanto Earthquake: Actions of Military, Civilians, and Government During the Great Kanto Earthquake, and Related Observations."

The document stated: "In the event of a future emergency, it will be necessary to double the system for control and guidance of the nation and of provincial public agencies (over that of the control of the nation exerted by the prewar Ministry of Home Affairs and so on), particularly control and guidance of the police and of the governors of Tokyo, Hokkaido, Kyoto, Osaka, and the prefectures, and the mayors of cities, towns, and villages," and referred to the control of local autonomous bodies, saying: "It is necessary to gradually promote measures to achieve this before an emergency arises."

This task of the Self Defense Forces was greatly advanced by the enactment in 1961 of "The Basic Law on Countermeasures to Natural Disasters," because that document made mayors of cities, towns, and villages responsible for nurturing autonomous disaster prevention organizations, and designated "the Ground Self Defense Force district commanding general, or a leader of a unit or organization nominated by him," as a member of the Prefectural and Metropolitan Council on Disaster Prevention along with leaders in education and chiefs of police.

The document "Research on the Civil Affairs Situation" which was compiled in June 1963 by the (General Affairs Research Unit) of the Ground Staff Office flatly stated: "In addition to the Self Defense Forces using this law (the Basic Law on Countermeasures to Natural Disasters) to expand and actively create opportunities for civilian activities, it is necessary to create opportunities to promote civilian activities covering cold war, indirect aggression, and direct aggression.

The June 1964 issue of the GROUND SELF DEFENSE FORCE STAFF SCHOOL NEWS entitled "Military Affairs (1): Civil Affairs: 1" explained "the business of assisting civil defense," and cited "the reorganization of disaster countermeasures organizations into civil defense organizations" as its precise content. In this way the disaster prevention system was intimately connected with the civil defense of the Self Defense Forces.

There were no concrete developments on this problem from the latter half of the 1960's through the 1970's, but the situation underwent an abrupt change around the time of the 1978 agreement on "guidelines for Japan-U.S. defense cooperation."

In December 1977 the "Japan Civil Defense Association" was formed, centered on former members of the Self Defense Forces. In June 1978 the Law on Special Measures To Deal With Large-Scale Earthquakes was enacted, clearly adding a crisis management aspect to the disaster prevention setup, and a month later then Prime Minister Fukuda directed the Defense Agency to undertake "research on emergency legislation and civil defense."

Thereafter, research on civil defense began in earnest within the Defense Agency, but disaster prevention continues to occupy a major role.

Toshinori Katsuke of the National Defense College wrote in "Natural Disasters, Manmade Disasters, and War Disasters" in the March 1984 issue of SINBOEI RONSHU [New Collection of Treatises on Defense] that "A setup has already been firmly established which has as its principle aim countermeasures to natural disasters; now the establishment of a system of civil defense that uses the existing setup as a foundation and that would be able to function better even in the face of a war disaster is desirable both from the standpoint of efficiency and economy, as well as the possibility of execution." He went on to point out the difference between natural disasters and war disaster, and appealed for a strengthening of autonomous disaster prevention organizations, saying: "Independent organizations other than the Self Defense Forces will probably be needed to deal with disasters in a time of crisis."

At a time of emergency the Self Defense Forces would not be in a position to take care of the people, so they have sought to have the people protect themselves, and beyond that, to cooperate with the Self Defense Forces.

If we look at the actual dispatch of the Ground Self Defense Force to help in time of disaster, in contrast to an average annual mobilization of 80,600 troops between 1972 and 1977, it dropped to an average of 37,000--less than half--for the period from 1978 to 1983, after the guidelines [for Japan-U.S. defense cooperation] had been determined. Even in the disaster prevention exercise on 1 September, the Self Defense Forces were less in evidence than they had been previously.

The Nation Rather Than Human Life

Thus, disaster prevention and civil defense have had a close relationship from the time of their origin, and the "crisis management" which suddenly entered

the spotlight recently is none other than their synthesis and perfection. According to the study "Military Aspects of Our Nation's Crisis Management" carried out by the Research Institute for Peace and Security at the request of the Defense Agency, "A crisis is a state in which there is increased danger of the loss of values which should be protected." The values which should be preserved are: 1) the existence as a sovereign state, 2) the basic political, economic, and social order, and so on; families and individuals are considered to be on a lower level.

The condition for preparation of a crisis management setup is that it be something which seeks to preserve the nation and the legal order rather than human life, and its objective is the mobilization of the people and the formation of a command structure through the Self Defense Forces.

12373
CSO: 4105/033

ECONOMIC OUTLOOK FOR COMING DECADE EXAMINED

Tokyo JAPANESE ECONOMIC OUTLOOK, 1983-93 in Japanese 6 Aug 84
pp 1-6

[Text] [Paper by Nomura Research Institute of Technology and Economics]

1. Premises of Outlook

Nominal

	1983/73	1993/83
OECD real economic growth rate (%)	2.1	2.7
World industrial goods export quantity (%)	4.0	4.2
World industrial goods export price (%)	6.7	4.9
Crude oil price (dollar/barrel)	*28.3	*40.0
Growth rate of oil price (%)	24.0	3.5
Government goods & service purchasing (nominal, %)	9.9	4.4

(note)* indicates standards of FY 1983 and of FY 1993

With respect to international environment, we expect that (1) the world economy and trade quantity in the coming 10 years will increase at a slightly higher rate compared with that of the last 10 years, which included 2 oil shocks and (2), the trend of disinflation will stabilize. In particular, we forecast that crude oil prices that went up sharply these last 10 years will increase at a lower rate than world inflation rate, and that the relative price will drop considerably.

Regarding the domestic policies, on the other hand, strict financial policies will have to be continued for the financial reconstruction over

the coming 10 years and we assume that the increase of financial expenses will be kept low.

2. Forecast Findings

Under the above premises the forecast findings for the Japanese economy in the coming 10 years are as follows:

(1) Growth rate, Unemployment rate, Prices

Over the past 10 years, due to the sharp increase of crude oil prices, trade conditions became considerably worse and the domestic demand stagnated because of the accompanying sluggish rate of increase of real income. Exports, on the other hand, showed large increases that surpassed by far those of imports. The economic growth of the last 10 years, in short, may be called "prominent export type growth."

Since the relative price of crude oil will go down over the next 10 years, trade conditions will be gradually improved and domestic demand will again increase. We expect that private consumption, with the upward tendency toward consumption, will increase at an annual real average of 4.1 percent. Private housing investment is expected to show a 4.1 percent increase in the annual real average because of the low standard for FY 1983, the base year. Private capital investment will probably increase at a 5.9 percent annual real average due to an upsurge of technological innovation investment lead by electronics, which will take a leading role for growth.

Real GNP Unemployment Rate, Prices

	1983/73	1993/83
Private Consumption	3.1	4.1
Private Housing	-1.5	4.1
Private Capital Investment	2.9	5.9
Increase in Private Inventory	-14.2	9.9
Government Consumption	4.1	1.4
Public Capital Formation	3.2	1.2
Current External Surplus	-	2.0
Exports, etc.	10.4	4.1
Imports, etc.	2.4	5.1
GNP	3.9	3.9

	1983/73	1993/83
Industrial Production	2.3	4.3
Unemployment Rate	*2.7	*5.3
Consumer Price Index	7.1	3.5
Wholesale Price Index	5.2	2.0

(Note) unit: %, annual average increase rate excluding unemployment rate

*indicates standards of FY 1983 and FY 1993

On the other hand, financial expenditure and external demand will increase at a low rate to rebuild economy, the financial expenditure will stay within an increase of slightly higher than 1 percent for both government consumption and public capital formation. External demand also will stay within a 2 percent increase.

Based on the foregoing, we forecast that the real economic growth rate from 1983 to 1993 will be at a 3.9 percent annual average. Although this growth rate is the same as that for the past 10 years, the growth pattern will change considerably. Also, we expect that the real economic growth rate for the first 5 years from 1984 to 1988 will be at a 3.7 percent annual average, while the real economic growth in the second 5 years from 1989 to 1993 will be 4.1 percent; thus, the second 5 years will show a slightly higher growth rate.

Now, because of the increase of female participation in the labor force market, the rate of increase for the working population will be at an annual average of 1.2 percent, surpassing the 1.0 percent rate for the last 10 years. Also, the aging of the working population will continue. Because of this, unemployment will increase especially among female and older workers, and the unemployment rate in 1993 will rise to 5.3 percent. This means that Japan will also move closer to the high unemployment societies of Europe and the United States.

On the other hand, due to the stable crude oil price, the international trend for disinflation, and the lowered increase rate of wages accompanying the unemployment rate increase, prices will be very stabilized. We expect that consumer prices will increase at an annual average of 3.5 percent and wholesale prices will rise at a 2.0 percent annual average.

(2) Balance of International Payment, Exchange Rates

The biggest change in the Japanese economy over the next 10 years will be its position in the international economy.

Regarding the balance of international payments, under the long-term tendency for a strong yen, the rate of increase for exports will fall below the rate of increase for imports and the trade balance surplus is expected to decrease. However, the increase of foreign net assets will yield a large surplus for investment earnings and invisible trade will be in the black. The increase of foreign aid will expand the deficit transfer balance and the current balance will continue in the black.

On the other hand, foreign investment will rapidly increase against this background of black ink for the current balance, and the capital balance will continue showing a considerable outflow surplus. In other words, the structure of international balance of trade for Japan in 10 years will exhibit a typical structure for international trade of an immatured creditor nation like that of 19th century England and like that the United States had experienced until the 1960's with a decrease of trade balance surplus, a large black ink balance for invisible trade and a large deficit capital balance.

Balance of International Payments, Yen rate

	FY 1983	FY 1993
Current Balance	243	187
Trade Balance	346	142
Exports	1508	3455
	(14.5)	(8.4)
Imports	1162	3314
	(11.8)	(11.6)
Invisible Trade Balance	-88	105
Transfer Balance	-15	-60
Long-term Capital Balance	-209	-180
Basic Balance	34	7
Short-term Capital/Errors	-9	0
Overall Balance	24	7

	FY 1983	FY 1993
External Net Assets	373	4960
Yen Rate	236	165

(note) excluding the yen rate, unit: \$100 million; figures within () indicate annual average increase rate (%) in the past ten years.

Further, distinguishing feature is that the foreign net assets will increase greatly due to the black ink of current balances and net foreign investment; in FY 1993 foreign net assets of Japan will reach about \$500 billion. This means that Japan will become the largest creditor nation in the world on a scale that no country has ever attained before.

Japan has played a role, so far, as the world's largest supply base for industrial goods, but in the future, it will play a role as the largest supply base for capital in the world.

The black ink of current balances, the increase of foreign net assets, and the stabilization of prices will yield over the long term a strong yen; in FY 1993 the yen rate will become \$1=165 yen.

With the largest real growth among developed industrial countries and the high yen, the income standard per capita in Japan will show a higher increase compared with that of other developed industrialized countries, especially the European countries, and in FY 1993 Japan will become second behind the United States among the major countries.

Per Capital Income (unit:dollar)

	1983	1993	
1 The United States	12,520	1 The United States	17,300
2 West Germany	9,270	2 Japan	14,500
3 France	8,330	3 West Germany	11,100
4 Japan	8,300	4 France	10,200
5 England	7,230	5 England	8,800

(3) Responsibility and tasks for the large creditor nation Japan

In 1993 Japan, which will have the second largest GNP in the world, a high income, and the world's largest foreign net assets, will be required to take responsibility appropriate to its economic strength. The major requirements and tasks to be imposed upon Japan in 10 years will be the following:

1) Appropriate Share of Defense Expenditure

Without destroying the dominant premise "strong economic power, minor military power," Japan will be asked to make maximum efforts. Defense expenditures is a share of "international common assets" for international security, and super economic power Japan will be required to bear its appropriate share.

2) Foreign Aid

3) Expansion of Finished Products Imports

Foreign aid and foreign economic cooperation by expanding finished product imports are the two factors most expected of Japan in place of a direct defense expenditure burden.

4) Appropriate Distribution of "Living Time" (5 day work week, summer vacation, etc.)

5) Improvement of "Living" Environment

Japanese social systems and living styles should not be judged peculiar by international common sense.

6) Real International Exchanges

It is important to promote real international exchanges by eliminating the one-way flow in the fields of education and culture.

12619

CSO: 8129/0129

CURRENT ACCOUNT SURPLUS TOPS 30 BILLION DOLLARS

0W271121 Tokyo KYODO in English 0759 GMT 27 Dec 84

[Text] Tokyo, 27 December KYODO--Backed by strong office equipment and semiconductor exports to the United States, Japan registered a big current account surplus of 2.90 billion dollars before adjustment in November with the aggregated January-November surplus totaling 30.26 billion dollars, the finance ministry said in a preliminary report Thursday.

This is the first time that the nation's annual current account surplus exceeded the 30 billion-dollar mark, compared with the previous annual record 20.80 billion dollar surplus marked in calendar 1983 and a total of 17.62 billion dollar surplus in the January-November period of last year, ministry officials said.

Japan is expected to enjoy a sizable current account surplus in December, when exports usually hold strong, the officials said.

Japan's current account surplus in November after seasonal adjustment came to a record 4.26 billion dollars, compared with the previous record of 3.55 billion dollars surplus set in April this year.

Japan's trade surplus before seasonal adjustment came to 3.85 billion dollars, down from 4.50 billion dollars in October, but the November trade surplus after seasonal adjustment marked a record 5.21 billion dollars, topping the previous high of 4.04 billion dollars in October, the officials said.

November exports rose 13.7 percent from a year ago to 13.85 billion dollars before seasonal adjustment, down from October's 14.78 billion dollars, but they were still at a high level, the officials said.

Imports declined 1.4 percent from a year ago to 9.99 billion dollars as crude oil imports dropped 13.7 percent on a customs clearance basis from a year ago, they said.

The deficit in invisible trade widened to 794 million dollars from 490 million dollars in October as the country paid interest on national bonds held by non-residents in the month, the officials said.

Overseas portfolio investments by Japanese soared to a record high of 4.67 billion dollars, up sharply from October's previous record of 3.59 billion dollars.

This was partly due to a high level of purchases by Japanese corporations of yen-denominated U.S. and New Zealand bonds totaling 100 billion yen (400 million dollars), the officials said.

The basic balance of payments, covering both the current and long-term capital accounts and regarded as a yardstick of a nation's fundamental payments position, recorded a deficit of 1.97 billion dollars, up sharply from October's 132 million dollars.

The overall balance of payments also showed a red-ink figure of 2.03 billion dollars, compared with a 274 million dollar deficit in October.

CSO: 4100/101

DEFENSE SPENDING TO INCREASE 6.9 PERCENT

OW281441 Tokyo KYODO in English 1404 GMT 28 Dec 84

[Excerpts] Tokyo, 28 December KYODO--Japan's defense spending for next fiscal year will increase by 6.9 percent over the current year--a big growth in light of the government's belt-tightening policy--according to the government draft budget compiled Friday.

The substantial increase in defense outlays is expected to boost the position of Prime Minister Yasuhiro Nakasone when he faces a new year summit with U.S. President Ronald Reagan 2 January in Los Angeles.

Japan has been under constant pressure from the United States to beef up its defense capability as a reliable ally across the Pacific.

The 6.9 percent growth is higher than the 6.55 percent increase for the current fiscal 1984 defense expenditures as well as being higher than a 5.1 percent rise which the Finance Ministry had proposed in its own draft for next year's budget.

The Defense Agency achieved the high growth ratio after several rounds of last-minute negotiations among Defense Chief Koichi Kato, Finance Minister Noboru Takeshita, and Chief Cabinet Secretary Takao Fujinami and top executives of the ruling Liberal-Democratic Party.

But the final decision was made by Nakasone himself, according to official sources.

The final draft budget earmarks 3,137 billion yen (12.55 billion dollars) for defense, up 203 billion yen from this year.

The fiscal 1985 defense budget is also expected to refuel a dispute over the country's established policy of limiting its defense spending to below 1 percent of gross national product.

Current defense expenditures already reach 0.988 percent of the estimated 1984 GNP, and the 1985 defense outlays amount to 0.997 percent or only 8.9 billion yen less than 1 percent, of the projected GNP for next fiscal year.

It is only a matter of time before defense spending tops the 1 percent level, given the additional funds needed for annual wage increases for the agency's personnel, political sources said.

A Defense Agency official said the just-compiled defense budget has "virtually" broken the 1 percent ceiling.

While calls for scrapping the ceiling are expected to gain momentum within the ruling party, the Nakasone administration is certain to face an uphill battle against opposition parties in the upcoming Diet session to deliberate the draft budget.

The opposition parties, led by the Japan Socialist Party, have accused the Nakasone cabinet of pursuing a militarist policy in line with Washington's global military strategy.

CSO: 4100/101

DEFENSE AGENCY WINS MORE BUILDUP FUNDS

0W281123 Tokyo KYODO in English 1003 GMT 28 Dec 84

[Text] Tokyo, 28 December KYODO--Japan's Defence Agency scored another gain in last-ditch bargaining with the finance authorities Friday when additional funds for sophisticated military hardware were restored for fiscal 1985 defense outlays.

The most encouraging gain for defense officials was a go-ahead for the plan to purchase U.S.-designed antiaircraft "Patriot" missiles, funds for which had initially been denied in the Finance Ministry's draft budget.

Also restored were the funds for procurement of 14 F-15 interceptor fighter planes, 10 P3C antisubmarine patrol planes and 3 escort destroyers.

All these budgetary restorations were decided in a high-level meeting between Defense Agency Chief Koichi Kato and Finance Minister Noboru Takeshita.

As a result of the negotiations, the Finance Ministry has added 30.3 billion yen (121.2 million dollars) to the originally projected defense outlays which totaled 3.085 trillion yen (12.3 billion dollars).

The final figure for the fiscal 1985 defense budget was subject to minor change as a second and last round of negotiations was scheduled later Friday between Kato and Takeshita.

The government-drafted budget for fiscal 1985 is to be formally approved at a cabinet meeting Saturday.

The introduction of the ground-to-air "Patriot" missiles into Japan had long been a hope of defense authorities, who have been under strong pressure from the United States to upgrade the country's air defense.

According to agency officials, the new missiles will replace the aging Nike-J missile system, which will be gradually phased out of service.

In fiscal 1985, the starting year for the patriot introduction project, the agency is allowed to purchase only "a half" flight of the antiaircraft missile system for training purposes.

Actual payment for the first year's purchase--32.6 billion yen (130.4 million dollars)--is to be carried over to fiscal 1986 or later under a buy-now-pay-later formula, which is designed to produce smaller outlays in a single fiscal year.

The formula is also related to Japan's established policy of limiting its defense spending to below 1 percent of gross national product.

Overall cost for the introduction of the full "Patriot" missile system is estimated at 680 billion yen (2.72 billion dollars) in current prices, rising eventually to about 1 trillion yen (4 billion dollars) after taking inflation into account.

On the list of frontal-defense equipment to be purchased in fiscal 1985 are 70 64-type tanks, 12 self-propelled 203 mm howitzers, 8 antitank helicopters (AHLS) and 8 units of short-range surface-to-air missiles (SAM) for the ground self-defense force.

The maritime self-defense force is to buy 3 escort destroyers, 1 submarine, 2 minesweepers and 10 P3C antisubmarine patrol planes.

The procurement list for the air self-defense force included a half flight of the "Patriot" missile system, 14 F-15 fighter planes, 2 C-130H transport planes and 5 SAM units.

Despite a greater share given to defense outlays in the "ultra-austere" budget, Defense Agency officials said the level of next year's defense buildup is about 30 percent short of the goal set in the 1981 medium-term defense buildup program estimate, which covers fiscal 1983 to 1987.

CSO: 4100/101

JAPAN TO INCREASE ODA 10 PERCENT IN FISCAL 1985

OW280943 Tokyo KYODO in English 0837 GMT 28 Dec 84

[Text] Tokyo, 28 December KYODO--Japan's official development assistance (ODA) for fiscal 1985 will rise about 10 percent over the current fiscal year for the first double-digit gain in 3 years, Foreign Minister Shintaro Abe said Friday.

He said the projected increase will bring ODA outlays for the new fiscal year starting 1 April to some 580 billion yen (2.32 billion dollars).

The fiscal 1985 ODA budget, however, does not fulfill the Japanese Government's target to double ODA to 2,488.8 billion yen between fiscal 1981 and 1985 over the preceding 5-year period.

Although the exact amount of fiscal 1985 ODA has yet to be determined, Abe said at a news conference, the total would represent a gain of around 10 percent over the year ago level, compared with increases of 12.7 percent in fiscal 1981, 11.4 percent in fiscal 1982, 8.9 percent in fiscal 1983 and 9.7 percent in the current fiscal year 1984.

After consultations with Finance Minister Noboru Takeshita, the foreign minister also reported that the Finance Ministry has agreed to a net boost of 88 ministry officials in the next fiscal year to 3,883 foreign ministry officials by the end of fiscal 1985.

During the budget talks, Takeshita also pledged to increase spending for improving the facilities of Japanese missions abroad and for secrecy protection measures for fiscal 1985 by 1 billion yen to 6.9 billion yen (28 million dollars), Abe told reporters.

Despite the strong possibility that Japan will not be able to honor its pledge to double ODA in fiscal 1981-85, government officials argued that the pledge may be fulfilled if the yen's value and Japan's outlays for international organizations increase sharply in the forthcoming fiscal year.

Budgetary restraint and quality of aid are a key to Japan's ODA program in the future, Abe added.

CSO: 4100/101

INTEREST RATES, POSTAL SAVINGS LIBERALIZATION DISCUSSED

Tokyo JIHYO in Japanese Oct 84 pp 176-179

[Interview with Ryozo Okuda, Postal Savings Bureau Chief, by JIHYO, editor; date and place not specified]

[Text] Benefits to Small Depositors Emphasized

[Question] Progress is being made in liberalizing interest rates. What does the Ministry of Posts and Telecommunications think of that? And, how are you going to cope with it?

Okuda: In the midst of liberalization of credit and interest rates on an international scale, Japan cannot stand alone in isolation; it cannot stay outside of the flow of the times. Nor can postal service and postal rates escape these trends. We feel that we must look forward and aggressively cope with the situation.

[Question] With regard to interest on deposits, there seems to be a tendency for liberalization to start with the big accounts. Does this imply that it is all right to place the small depositors who [are] the general public and the individual depositors on a lower priority?

Okuda: Currently, the Finance Ministry is proceeding with a policy of liberalizing the interest rates on the major accounts first and considering the disposition of small accounts lastly. In Japan's deposit and saving account structure, I believe those that the nontaxable savings are the small accounts; and these account for 60 percent of all deposits and saving accounts. We do not believe there can be any liberalization of interest rates without a liberalization in this overwhelmingly large small accounts sector.

Traditionally, the interest rates on deposits, particularly on small deposits, have been held down in Japan. Under such circumstances, the assignment of low priority to the small accounts can turn out to be slighting the benefits accruable to the small depositors.

With deregulation, there can be ups and downs of interest rates but over the long term, the situation will turn favorable. We must see to it that the

delayed considerations being given to the small depositors do not result in the derivable benefits being rolled back. This is our basic thinking.

[Question] Apparently, interest rates on small accounts have been held down; this has been accomplished artificially by regulation, hasn't it?

Okuda: Yes. This came about because the maximum interest rate on deposits was put under guide lines set by the Bank of Japan under the provisions of the so-called temporary money rates adjustment law [of 1947]. This system has been instrumental in holding down higher rates. With deregulation, this restriction will be done away with and higher levels of interest rates will become receivable.

Even if postal savings rates are liberalized, however, there are broadscaled restrictions on how the funds can be used, preventing their use on profitable investments.

[Question] So, even though the payment of such higher rates to depositors are desirable, the lack of freedom to make advantageous investments could preclude paying them. That must be frustrating.

Okuda: Money received as deposits in postal savings is all turned over to the Trust Fund Bureau and the interest it pays (7.1 percent annually) has to cover the payment of interest to savings depositors and for all of our operating expenses. Unless we have access to potential benefits to be derived from utilization of the funds, high interest rates allowed under deregulation cannot be paid.

It now becomes imperative that liberalization of funds utilization--the means of moving the money collected--reflect the reality of the marketplace so as to tie in with the payment of higher interest rates.

[Question] What thoughts do you have with regard to new structures involving utilization of funds.

Okuda: There is a limit as to the amount of interest that can be paid without having any profitable investments to make. We have achieved some by making allout efforts to cut costs of post office operations. But this step alone cannot prepare the way to pay the higher interest rates that is the rule under liberalization.

The deposits that are entrusted to the post office are the entrance and, in order to liberalize the flow through the entrance, some equitable restructuring of exits--that is, in fund utilizations--must be made.

Up to now, all the money is turned over to the Trust Fund Bureau and deposited without any tailoring. I would be in favor of having the post office invest its money as it sees fit and by doing that, have its funds reflect the condition of the marketplace.

[Question] I understand that as a measure to counter liberalization, a request to float a 1 trillion yen national bond issue for the postal savings system waste be included in the FY 1984 budget but that the proposal was denied.

For Direct Utilization of Postal Savings Funds

Okuda: That is correct. Unfortunately, the proposed bond issue did not materialize. However, we intend to continue to press for something along that line.

The Finance Ministry constantly guards against a breakdown in its unified utilization of public-related funds. It feels that the Trust Bureau should be the one element to handle utilization of all public monies, giving it a capability of formulating a single investment policy on a national scale. If the postal savings institution bears even a small portion of the national debt, it would be a crack in this monopoly. For that reason, the financial elements of the government do not favor the proposal.

Within this same post office structure, the Post Office Life Insurance business is operated directly by the Ministry of Posts and Telecommunications. Over two-thirds of the fund derived from this source which is directly utilized is applied to public investments as part and parcel of the overall public financial investment program. Because all funds derived from postal savings deposits would undoubtedly be used in the same way if direct utilization were granted, I cannot see that it could cause any confusion in the investment policies of the public financial and credit organs.

We cannot agree with those who claim that direct utilization of these funds by the Ministry of Posts and Telecommunications would hamper a centralized utilization of the nation's funds.

There is an item which, surprisingly enough, is not generally known: The possession of national bonds by the Trust Fund Bureau is outside of the framework of public financing and credit fund program. The Trust Fund Bureau regularly purchases 3 to 4 trillion yen in national bonds; all that we are proposing is that a suitable amount of those be exchanged for postal savings deposits. Therefore, there is no way that it would present an obstacle to the centralized utilization program.

[Question] What about arguments to the effect that postal savings would become the price leader and thus hinder the liberalization process; or that a prerequisite to deregulation is the standardization of interest rates.

Okuda: Needless to say, postal savings has traditionally been and must continue to be in the future, an independent, profitable enterprise. It has been restricted in the utilization of the money that it collects and even if it gains the right now to directly utilize these funds, it would be restricted to using the fund for buying public bonds or to make loans to

public financial investment organs. Interest rates, therefore, would automatically be restricted.

There is, then, no way that postal savings could achieve price leadership.

If interest rates are deregulated, each credit organization will rationally establish a rate beneficial to itself, so it would be impossible to standardize interest rates even if one tried.

If postal savings interests are artificially assigned rates which must follow rates paid in the private sector, it would have the effect of being directly opposite to the real intent of deregulation. The argument that a standard rate is a prerequisite is an argument based on a misunderstanding of the interest rate deregulation concept.

The argument for making a standard interest rate as a prerequisite is, we suspect, put up by those whose real goal is the extending of regulated interest rates. Even with interest rates deregulated, there could be those who plan to have undercover agreements among credit organizations in the private sector to have interest rates established without competition.

[Question] Trouble with loan sharking has become a social problem; if it comes to loans being made directly from postal savings, could it develop into such a Would it be possible to build in some kind of a people's banking structure to prevent such abuse?

Okuda: Of course such possibilities will have to be thoroughly studied. Personal finance must be self contained without regard to deregulation. We feel that more initiative should be exercised in aggressively making individual loans from postal savings funds within the prescribed limitations--only doubly superior rated loans. We believe this is a major project that should be undertaken.

I feel that it should be a natural function of a post office that collects small deposits to work in behalf of obtaining beneficial results for individual accounts.

[Question] Banks do not emphasize individual finances. It is often said that they do not lend you an umbrella when it rains and will only deal with you when the weather is fair. Please work in behalf of the small accounts of individuals in the same way that post offices service small accounts and in this way play a part in the destruction of such things as the troubles with loan sharking.

Changing the subject but what has become of the "green card"? The general public seems to be on the verge of forgetting about it.

Policy Direct at Inducing Savings

Okuda: The "green card" problem was widely discussed during 1979 and 1980 when the whole problem of interest distribution taxation was brought up.

Since then, the effective period of the "card" was delayed for 3 years. Since that was a 3-year freeze, if no steps are initiated, the freeze will expire and the "card" will become effective.

According to the time schedule, this matter must be included in the FY 1985 budget and, therefore, the problem will have to be settled in some manner by the time that the FY 1985 budget is compiled. Although both the government's and the Liberal Democratic Party's tax committees had set this summer as the deadline to come up with final decisions so that they could be incorporated in FY 1984 appropriations and tax structures, but true to tradition, there have been delays in the delivery of these final decisions.

"Green cards" have not been abolished; if no steps are taken to prevent it, they will be reactivated. Because a year has been allotted for making preparations for activations, distribution procedures for the cards will begin early in 1986 and will become effective in January 1987.

[Question] There should be concern, then, that while the general public is being lulled into forgetfulness, steps are being taken to activate the "green cards." It does seem that as in the case of the "green card," to proceed with plans in complete disregard of public sentiment, to do away with nontaxable savings to increase tax revenues, should not be allowed.

Okuda: Taxing the general public's moderate interest incomes from savings would have the effect in the future of dampening the people's spirit of self-help to make a living. For that reason, we do not favor its adoption.

A major cause of Japan's economic growth can be traced to support given it by the people's savings. Everyone is aware of the fact that with the growth of numbers in the upper age bracket there is bound to be a retrocession of social guarantees through public welfare. When one thinks about self-help as a means of protection in old age, greater efforts must be directed to devise even greater inducement to individuals to save.

[Question] Maybe the tax exemption maximum on deposits should be made even higher than the 3 million as an inducement to broaden the savings base.

Tax Exemption Maximum to 5 Million

Okusa: The 3 million yen tax exemption ceiling for Pilmaru [zero?] preferreds and postal savings has been in effect since 1973, unchanged for 11 years. Until 1973, the amount was changed every 2 or 3 years to adjust to price levels. With the oil shock of 1973 which brought about an economic recession and governmental deficits, the amount remained stationary.

The matter of tax exempted savings cannot be argued only in the confines of government finances and tax revenue. It is more important to maintain and encourage the people's will to save as insurance against difficulties in old age. All efforts toward preparing for self-help through savings should be given support. Unfortunately, attention is being overwhelmingly

directed to the governmental deficit crisis, dangerously submerging movements to broaden the tax exempt base.

[Question] It's redundant, but I again ask how much do you think we should raise the tax exempt ceiling that has been frozen for 11 years?

Okuda: Maybe from the standpoint of all of the Japanese people, the figure is never sufficient, but I am thinking in terms of about 5 million yen.

In consideration of the upper age group era, there is a need to make special arrangements for the elderly such as establishing a separate tax exempt ceiling for those over 55 years of age. These recommendations have been made every time requests for appropriations are made over past several years but regrettably nothing has come of them so far. Even the experts in the field have vigorously favored the establishment of the "silver" savings plan.

[Question] There are reports to the effect that the postal savings system is badly abused; stories have it that there are 300 million postal savings accounts, some of which are used by tax evaders.

Okuda: The charges are completely erroneous. The 300 million figure is the number of sheets of certificates issued for specific amounts of deposits; they are not accounts. Fixed amount deposits can be made with a minimum of 1,000 yen, so if one certificate for that amount is issued for the summer bonus and another one for the winter bonus, there would be two of these during the year.

Even a child can buy one with his new year's present.

There is nothing sinister in one person owning several such certificates. But when the number for such certificates are counted as the number of accounts and imply that one person buys several of these to beat the 3 million yen tax exempt ceiling, this is dangerously misleading and gives rise to baseless charges.

The argument to abolish the tax exempt savings system because it is being used abusively by the rich to hide their income is as silly as to propose the collection of horns and kill the cattle.

Even if there is concern that the system is being abused, the proper thing to do is to take measures to prevent the abuse. To argue that because there may be room for some abuse, the tax exempt provision should be abolished is to argue that a postal savings system designed for the general public should be done away with. We cannot stand by and do nothing while efforts are made to dampen the will of the people to save.

RECOMMENDATIONS TO DIET FOR NTT CORP DIVESTITURE

Tokyo NIHON DENSHIN DENWA KABUSHIKI KAISHA HOAN KANKEI SHIRYO in Japanese
101st Session of the Diet, Apr 1984 pp 1-7

["Manuscript Concerning the Plan to Change the Nippon Telegraph and Telephone
Public Corporation to a Private Enterprise"]

[Text] 101st Diet Session

Data Relative to Nippon Telegraph and Telephone Joint Stock Corporation Law
(NTT Corp)

Ministry of Posts and Telecommunications

Contents

1. Explanation of reasons for proposing the NTT Corp Bill
2. Outline of the NTT Corp Bill
3. The NTT Corp Bill
4. Reference provisions of the NTT Corp Bill

Explanation of reasons for proposing the NTT Corp Bill

The reasons for proposing the bill and a summary of its contents will be explained with respect to the NTT Corp Bill.

In order to respond to progress in an economic society and the technical revolution in the field of electrical communications, the bill proposes the reorganization of the Nippon Telegraph and Telephone Public Corporation and the establishment of the NTT Corp. And, while retaining the public nature of the enterprise, bring about a revitalization of and maximizing of its management.

Next is a summary of and explanation of the bill.

First, the NTT Corp has as its management objective a joint stock corporation with the business of managing domestic electrical communications.

And, the company, in addition to operating its business of electrical communications activities can, with the approval of the minister of posts and telecommunications, engage in periphery activities which are necessary for it to attain its business objectives.

Second, as the company's responsibility, in carrying out its activities, it will keep constantly in mind that the management will be appropriate and efficient. And, through its duty of providing necessary telephone service to the public under appropriate conditions, strive to contribute to the stable provision of its responsibilities universally throughout Japan. Taking into consideration the importance of its part in providing electrical communication which will play its part in economic progress in the future, the company must, through research make available practical electrical communications technology and promote basic research. And through the proliferation of the results of these endeavors, it must meaningfully help raise and develop our country's electrical communications.

Third, with respect to the company's stock shares, the conditions stipulated are that the government must, at all times, hold more than one-third of the company's issued shares.

Also, the disposition of company shares held by the government must be within the limits established by Diet approval during that budget year. Further, foreigners and foreign juridical bodies will not be permitted to hold shares of this company.

Fourth, with respect to the issuance of new stock shares, selection and duties of directors and auditors, revisions of Articles of Incorporation, operational planning and transferring of important facilities, appropriate regulations will be established with these actions requiring the approval of the minister of posts and telecommunications.

Fifth, in the event the minister of posts and telecommunications wishes to approve the issuance of new stock shares, act on resolutions to change the Articles of Incorporation, business plan or transfer important facilities, he is required to consult with the minister of finance.

Sixth, the by-laws will contain provisions to assure that the government, within 5 years from the date of establishment of this company will review the effect of the implementation of this law and, taking into consideration the changes in circumstances subsequent to the implementation of the law, will examine the status of the company and consider necessary measures based on the results of their examination. At the same time the by-laws will also stipulate interim measures required in conjunction with the establishment of the company and the dissolution of the Nippon Telegraph and Telephone Public Corporation.

Further, this law is slated to become effective from the date of official notification. However, the dissolving of the law regulating the Nippon Telegraph and Telephone Public Corporation and the related actions stipulated with this dissolution will become effective from 1 April 1985.

The foregoing is an outline of the bill and the reasons it has been proposed.

We request sincerely that upon your careful deliberations that you will speedily give your approval for its passage.

101st Diet Session

Data Related to the Adjustment of Laws Relevant to the Implementation of the NTT Corp Law and the Electrical Communications Business Law.

Ministry of Posts and Telecommunications

Contents

1. Explanations of reasons for proposing the bill concerning the adjustment of laws relevant to the implementation of the NTT Corp and the Electrical Communications Business Law.
2. Summary of the bill concerning the adjustment of laws relevant to the implementation of the NTT Corp Law and the Electrical Communications Business Law.
3. The bill concerning the adjustment of laws relevant to the implementation of the NTT Corp Law and the Electrical Communications Business Law.
4. Chart showing comparison of the new and old laws concerned with the adjustment of laws relevant to the implementation of the NTT Corp Law and the Electrical Communications Business Law.
5. Reference provisions of the bill concerned with the adjustment of laws relevant to the implementation of the NTT Corp Law and the Electrical Communications Business Law.

Explanation of reasons for proposing the bill concerning the adjustment of laws relevant to the implementation of the NTT Corp Law and the Electrical Communications Business Law.

With respect to the bill concerned with the adjustment of laws relevant to the implementation of the NTT Corp Law and the Electrical Communications Business Law, the reasons for proposing the bill and a summary of its contents are provided herewith.

This bill, in addition to abolishing and revising laws related to the implementation of the NTT Corp Law and the Electrical Communications Business Law provides for the required interim measures.

Next is an explanation of a summary of this bill.

First, with respect to items which have to do with the implementation of the NTT Corp Law, in addition to the abolition of the Temporary Measures Law concerning the Establishment of the Demand Adjustment Fund concerned with Telegraph and Telephone Bonds, major revisions of related laws, first, with respect to the abolition of the Nippon Telegraph and Telephone Public Corporation Law the necessary revision of pertinent portions or the deletion or changes of names as required will be undertaken.

Second, after the Nippon Telegraph and Telephone Public Corporation is reorganized and becomes the NTT Corp the Mutual Aid Benefit System will continue to be applicable and, in this connection, the relevant laws will be revised as required.

Third, relative to the company's labor relations, it will abide by the three basic Labor Laws and the Public Bodies Related Labor Laws will not apply, and, in order to determine special provisions relative to arbitration matters, the necessary revisions to relevant laws will be undertaken.

Next, with respect to matters relating to the implementation of the Electrical Communications Business Law, in addition to abolishing the Telephone Installation Costs Responsibility Temporary Measures Law, such major revisions of relevant laws as, first, along with abolition of the Public Electrical Communications Law, necessary deletions and revisions in names where applicable will be effected in this and other concerned laws regulating public electrical communications.

Second, among relevant laws pertaining to wired electrical communications and radio wave laws, necessary and applicable revisions will be made of public electrical communications responsibilities predicated on unified operation.

Also, along with the abolishment of and revision of the above relevant laws, the necessary and applicable interim measures will be established.

Further, this law will become effective as of 1 April 1985.

The above is a summary of and explanation of reasons for proposing this bill.

Request sincerely that upon your careful deliberations that you will speedily give your approval for its passage.

101st Diet Session
April 1984

Data Concerning Electrical Communications Business Law

Ministry of Posts and Telecommunications

Contents

1. Reason for submitting the Electrical Communications Business Law
2. Summary of the Electrical Communications Business Law
3. The Electrical Communications Business Law
4. Reference provisions of the Electrical Communications Business Law.

Explanation of Reasons for Proposing the Electrical Communications Business Law

With respect to the Electrical Communications Business Bill, the reasons for its proposal and a summary of its contents are presented herewith.

The business of electrical communications is a business which provides electrical communications essential to the peoples' livelihood and the maintenance and development of the nation's economy. Because of its inherently very high public service nature, in our country, it has been managed in a unified manner as a national or public industry. Particularly, following the war, the electrical communications facilities ravaged by the war were quickly restored and in order to respond to the rapid demand growth of the telephone, the Nippon Telegraph and Telephone Public Corporation and the Kokusai Denshin Denwa companies were established. Based on a six stage electro communications and telephone expansion plan, efforts were zealously made to expand and equip our communications and telephone network. In March 1978, elimination of backlog of phone installation orders and in March of the following year the attainment of automatic direct dialing throughout the entire nation were completed. Through the achievement of these two major objectives our country gained the position of becoming one of the world's advanced communications countries and in the process of achieving this status the Nippon Telegraph and Telephone Public Corporation and the Kokusai Denshin Denwa Company contributed immensely to the advancement of our nation's economy and to the raising of the level of livelihood of our citizens.

However, in recent years, along with the advances in electrical communications technology, new communications media have materialized, one after the other, and the demands on electrical communications by the people of our country have become highly sophisticated and diversified. As a result it is becoming increasingly difficult to respond adequately to these demands as a single objective industry.

At the same time, our country is now at the threshold of a major era of change from an industrial society to a sophisticated information society. In this milieu, through the medium of a national multistrata electrical communications network, the electrical communications industry which acts to tie in all elements of the individual, the home, industry and government society, is looked upon to play a leading role in bringing about a prosperous peoples' livelihood, a vitalization of the industrial economy and an expansion of regional independence.

As for the government, taking due consideration of these various changes in the situation surrounding the electrical communications industry, is desirous of proposing this Electrical Communications Business Bill which newly injects a competitive base using the power of the private sector to replace the existing Public Electrical Communications Law because it feels that in order to establish a sophisticated information society as we approach the 21st century, injection of competition into the electrical communications industry which shoulders a basic role in this changeover is necessary and that it is mandatory for the electrical communications industry to make great strides in improving their efficiency and vitality.

Next will be an explanation of the summary of the proposed bill.

The first point is, as a matter of overall concern, the establishment of regulations for the protection of secrecy of electrical communications handled by the electrical communications industry and the prohibition of censorship. The bill also provides for fair use and insures important communications.

Second, the electrical communications industry has been divided into two classes. Class I comprises those businesses which, by themselves, establish the wired communications facilities and provide the services. Class II electrical communications businesses are those which receive the use of wired communications facilities from the Class I purveyors and then provide the benefits of these facilities to others.

Of these, with respect to the Class I electrical communications businesses, the minister of posts and telecommunications is authorized to approve the start of these enterprises in order to insure that the wired electrical communications facilities will not become oversaturated and to insure stability and reliability of the industry. Also, since the charges for services have a profound impact on the public and the national economy, the approvals will be contingent on the charges being at appropriate levels for the users. Additionally, with respect to Class I electrical communications businesses, in order that the citizens can equally benefit from these electrical communications services, assurances have been built in so that they will measure up to their responsibilities in their areas of operation and that they provide interface with other Class I businesses in other areas.

And, with respect to Class II electrical communications businesses this is a sector where the provision of all sorts of communications services can be anticipated. The basic philosophy here is that business operations can be started merely on the basis of notification. However, Special Class II Electrical Communications Businesses, in other words, those industries which have an unspecified national base and those with business activity overseas, are, in consideration of their economic importance to the economic society and in order that the volume of business they will conduct will be appropriate, required to be registered with the minister of posts and telecommunications in order to start business operations.

Third, with respect to Class I and Special Class II electrical communications businesses, the government will establish certain technical standards with respect to the electrical communications facilities used as the main or basic method of operation of those businesses. After determining a set technical level which will insure the provision of good quality, stable electrical communications, and a similar technical level established for terminal facilities to insure smooth electrical communications the users will be free to install facilities as they wish. Furthermore, in order to insure that the electrical communications facilities will meet the technical standards, regulations have been established which apply to key persons responsible for electrical communications and for supervisory repair personnel.

Fourth, with respect to the use of real estate required for the pursuit of business by the Class I electrical communications businesses, required and applicable measures will be devised.

Fifth, the minister of posts and telecommunications, when about to take important actions such as determining rates or giving approvals for businesses under this law, shall consult with an advisory committee and must act in consonance with their advice.

Sixth, the by-laws provide that the government will review the status of this law within 3 years from the date of its implementation and will devise any measures required on the basis of this review.

There are provisions made for other necessary and applicable measures to be devised.

The effective date of this law has been set at 1 April 1985.

The foregoing is a summary and explanation of reasons for proposing this bill.

We request sincerely that upon your careful deliberations that you will speedily give your approval for the passage of this bill.

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END